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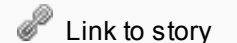
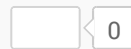
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What to consider before closing a credit card account

By Carmen Chai



It helped you pay for textbooks, vacations and new furniture, but you've been mulling over closing your credit card account. To protect your credit score, though, there are a handful of factors to consider. By thinking carefully before making the call, you'll make sure your financial reputation and good standing with creditors stays intact.

There are many reasons you may be considering closing a credit card. Perhaps you signed up for a card to take advantage of a 0 per cent balance transfer period, then never used it again once the balance was paid off. Or maybe you just have more cards than you need and are looking to pare down. No matter the reason, you shouldn't make the decision hastily, lest you do more harm to your credit score than good.

"We see many consumers closing down their accounts because they have too many credit cards to keep track of," says Christi Posner, a financial expert with the national Credit Counselling Society. "The risk of closing too many accounts at once is that it can look like you cannot manage your debt properly."



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Before you call and cancel, you should consider a few factors. First, know the difference between a closed account and a cancelled or expired card.

Cancelling your card is not the same as closing an account. For example, you may cancel a card that is lost or stolen, then receive a new one under the same account.

"Cancelled credit cards are cancelled plastic cards, not the account itself. If you want a credit card account closed, you must request this," Posner says.

Expired credit cards are by no means cancelled or closed credit cards either. If you haven't cancelled a card, your lender will mail you a new card after your current one expires.

Other things to consider include:

1. Your credit utilization ratio

Jumping out of a credit card account is especially risky if you're not managing the ratio of your debt to your total credit available.

To keep a good credit rating, your total card balances shouldn't exceed 30 per cent of your available credit across all your cards. Say, for example, you have three cards with a combined total \$1,000 limit, and you have a \$100 balance on one card and a \$200 on the other. You are at 30 per cent of your credit limit, so you should be fine. But if you take the account with no balance away, and you suddenly have a third less available credit, and that percentage goes up, endangering your credit.

"The credit utilization will impact your credit score," says Mike Gomes, a financial planner at Toronto's Ironshield.

Closing a credit card account with an outstanding balance falls under this category, too.

"The most common mistake we see is when consumers close down their credit card accounts when they still have balance owing. They do this as an honest attempt to stop spending, but severely hurt their credit score by doing so," Posner explains.


If your creditor, for example, lets you close the account as you chip away at the balance, it can look like you've maxed out your card. If you carry the balance over to another card, your credit utilization ratio might take a hit, too.

To avoid spending on a credit card, try cutting it up but leaving the account open. Then plan to pay down the debt you owe before you close the account. This also allows you to continue building your credit -- as long as you're making payments on time.

2. How long you've had the account

The general rule of thumb is to hang onto the credit card you've had the longest - it's long-standing credit history will vouch for





you when you need a mortgage, car loan or line of credit down the road.

"The No. 1 thing would be history. It gives [creditors] something to go back to and check your risk factors. They can see you're responsible and you've been paying debt consistently," Gomes says.

Of course, it can be tempting to close an older account with a higher interest rate and lower limit if you have a new card with lower interest and a higher limit. If that's the case, you may be better off trying to broker a better deal for your older account, Gomes says.

If you have a good history with the card, increasing the limit or lowering the fee may be easier than you think. Just call your credit card provider and ask. (You could also ask for a limit increase on your oldest account before closing another to avoid having a high credit utilization ratio.)

The only drawback is that seeking additional credit will leave a small, but temporary, negative impact on your credit score, Posner warns.

3. Your credit portfolio

To creditors, a well-rounded client has a variety of products, such as a line of credit, a credit card and a car loan.

So if you're set on closing many accounts, keep at least one open to show you're responsibly paying that form of credit.

Gomes suggests hanging onto at least two credit cards, even if the second is only an emergency backup.

Document the process

Once you've decided which account to close, call the credit card company. It may close immediately, or it could take weeks to process, according to experts.

Document when you call, who you talk to and any confirmation codes you receive.

Follow up by sending a letter confirming the account is closed. You also need to make sure there is no outstanding balance.

Gomes suggests pulling your credit report down the road to check that the account has truly been closed. Remember that all your payment history - even on a closed account - stays on your credit report for six years.

It sounds like a lot of trouble, but closing your account might be a sound decision for your circumstances.

"You feel lighter, the temptation to spend diminishes and the risk of fraud significantly decreases," Posner says.

See related: [How to negotiate a better credit card deal](#), [Should you downgrade an old card with a high fee?](#)

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